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MONTHLY PROJECTIONS
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CONSTRUCTION SURGE AIDES STRONG FIRST HALF

According to the conventional wisdom, no meaningful tax reform is expected to impact upon business transactions in 1985. As a result, those builders who had reduced their starts for multi-family units during the fall after the Treasury released its tax reform proposals, have now begun to work through that permit backlog. A surge in non-residential private construction activity also became apparent in January. To be sure, the F. W. Dodge listing of orders does not currently justify such a rapid rate of growth in non-residential private construction. However, the same factors that are encouraging builders of multi-family units to complete their projects in 1985 also are influencing construction of office buildings and warehouses. Also, Congress finally has released highway funds that had been accumulating because of problems with allocating the results of the 5¢ gasoline tax that was enacted last year. Therefore, a surge of public construction should combine with strong gains in private construction during the first half of 1985.

Such a surge of activity should begin to show some stress in terms of wages and prices. At the present time, wages in the construction industry remain well-behaved. However, the construction cost index is beginning to move significantly higher. Indeed, our estimates show that the construction component will probably be adding more to inflation in 1985 than originally expected.

Adding to the surge in activity generated by construction is continuing support for the economy by the consumer. The consumption deflator actually declined in December. This led to a surprisingly strong gain in consumer spending during December, even as unusually mild weather led to a smaller rate of consumption of services than normally would prevail. The rebound in services expenditures in January means real consumer spending in that month already was 4.8% above fourth quarter averages at annual rates. While consumption of durables probably will decline slightly in the remainder of the quarter, as a result of bad weather and some inventory shortages for automobiles, further real gains in purchases of nondurables and services assures that the consumer com-

ponent will be growing in excess of 5% at real annual rates during the first quarter.

As a result of modest inflation, this growth in consumer spending has only marginally exhausted the available savings pool. Thus, the consumer will remain well-positioned to provide further support for economic expansion during the second quarter. In the latter part of the year, any acceleration in inflationary pressures and/or reduction in domestic production and hiring could impact spending on consumer durables. Indeed, our projections show that automobile sales will peak early in the second quarter at a level of 11.3 million units.

A strong dollar continues to be the primary force behind restraining inflationary pressures. Since the beginning of this year, the dollar has appreciated more than 10% against the trade weighted value of other currencies. Although continued strength in the dollar appeared to be surprising during an environment of declining interest rates, changes in portfolio flows seem to provide a clue as to why dollars remain scarce in the world economy. Between 1982 and 1984, financial intermediaries from the United States reduced their net lending and investments abroad from $108 billion to $2 billion. Assuming no significant change in the capital demands of foreign investors seeking direct access to American financial assets, this shift in portfolio decisions by financial intermediaries would require the current account deficit to rise to the vicinity of $120 billion. Only then would significant dollar outflows associated with the trade gap offset the increased dollar repatriation developing in the capital account. Because of a surge in inventory investments during the third quarter of 1984, the current account deficit temporarily approached this required magnitude. However, this bunching of imports could not be sustained. Therefore, trade balances improved substantially during the fourth quarter, leading to nearly a $30 billion reduction in the current account deficit. Although trade balances once again are trending toward larger deficits early in 1985, the current account deficit is not expected to be sufficient to restore dollar equilibrium until the end of the second quarter. If interest rates rise in the interim, the dollar could remain strong into the third quarter, as even more capital becomes repatriated and as foreign investors increase their holdings of American assets.

Many importers have not fully exploited their market potential for fear of protectionist retaliation. Instead, they have used the reduced costs generated by a strong dollar to increase their profit margins in the U. S. market. It is likely that when the dollar begins declining, these margins will recede, allowing at least a 10% decline in the dollar's value from 1984 levels, or more than a 20% decline from prevailing rates, before any noticeable inflationary fallout develops.

Actually, our inflationary estimates are not reduced despite the favorable impact of a strong dollar. Partially offsetting the dollar's effect is the developing stress in the construction sector. Also, the harsh winter weather probably has added 0.2-0.3 percentage points to the CPI for 1985 by destroying a vegetable crop and seriously reducing U. S. capacity to produce citrus products. On the other hand, the rapid appreciation in the dollar virtually nullifies the equilibrating influence that the OPEC price changes otherwise would have generated. With oil priced in dollar while other commodities are falling in dollar terms, oil has become an especially expensive commodity for most of the world. Until oil prices decline further, by at least $2 per barrel in the

spring, current upward pressures upon prices of petroleum products will be only temporary and will soon be reversed.

Despite unquestionably strong performances in the construction and consumption sectors, mixed signals are being generated for the remainder of investment activity. A sharp decline in both shipments and orders for nondefense capital goods during January shows that domestic industries are not receiving the orders to help industry become more efficient. Also, inventories have not yet been restored to desired levels in comparison to sales either in manufacturing, where inventories fell slightly in January, or in the retail sector. As a result, inventory accumulations may continue to restrain economic growth during the first quarter. With restraint also beginning to develop from the trade accounts, it is easy to see how some analysts believe that economic activity during the first quarter will be sluggish. However, some of this analysis is double counting by underestimating capital spending because of the weakness in shipments for nondefense capital goods and then subtracting from activity for the increase in the trade deficit. However, one component of this trade deficit is the foreign importation of machinery that is displacing domestic machinery production. Once this double counting is removed, it appears that economic activity has expanded vigorously during the first quarter and will continue to expand vigorously well into the second half of 1985.

Such a vigorous rebound in economic activity almost certainly will place upward pressures upon credit markets. Interest rates probably already have passed their low point for 1985. Upward pressures upon rates now are anticipated through the third quarter. Economic weakness and a significant restraint in the federal budget, which is unusually stimulative in 1985, will begin exerting downward pressures upon interest rates late in the year. Nevertheless, both short-term and long-term interest rates are expected to be higher by the end of the year than they currently are.

This increased economic activity initially will be adding to corporate profitability. However, when short-term interest rates begin rebounding, a large portion of the increased returns to capital will be funneled to interest recipients. Thus, corporate profitability once again will increase less than normally would be predicted during the second and third quarter by a rapid growth in real economic activity. Rising interest rates and only restrained gains in corporate profitability should limit the upside potential in equity values. Although the stock market normally should exceed 1300 on the Dow Jones, for all the other standard indices have reached levels that would justify a somewhat higher Dow Jones average, the 1300 barrier could prove to be formidable. At any rate, the stock market probably will be trending downward in the latter half of 1985.

Quarterly Profile of GNP

	1984-4	1985-1	1985-2	1985-3	1985-4	1986-1
Real:	4.9	5.2	5.1	4.4	1.6	0.3
Price:	2.8	3.0	2.6	4.1	5.1	4.7
Nominal:	7.8	8.3	7.9	8.7	6.7	5.1

Monthly Statistical Highlights for February 1985

Payroll employment +146,000; index of hours worked +0.3%; household employment +182,000; civilian unemployment rate 7.4%; personal income +0.4%; savings rate 5.8%; personal consumption +0.6%; retail sales +1.0%; auto sales 11.2 million; housing starts -0.5%; housing permits +0.5%; construction expenditures +2.0%; business inventories +0.3%; orders for durable goods +0.5%; orders for nondefense capital goods +8.9%; industrial production +0.3%; CPI +0.3%; PPI +0.3%; consumption deflator +0.3%; leading indicators +0.8%; real GNP +2.9%; M1 +12.1%; M2 +10.0%.

Monthly Statistical Highlights for March 1985

Payroll employment +229,000; index of hours worked +0.3%; household employment +277,000; civilian unemployment rate 7.3%; personal income +0.5%; savings rate 5.9%; personal consumption +0.6%; retail sales +0.4%; auto sales 11.0 million; housing starts +1.5%; housing permits +1.9%; construction expenditures +2.0%; business inventories +0.6%; orders for durable goods +1.0%; orders for nondefense capital goods +4.7%; industrial production +0.4%; CPI +0.3%; PPI +0.4%; consumption deflator +0.4%; leading indicators +0.3%; real GNP +5.1%; M1 +12.7%; M2 +10.0%.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	95154	95157	113.2	113.2	105649	105649	7.3	7.3	161.3	161.3
November	95489	95494	114.0	114.0	105932	105932	7.1	7.1	162.0	162.0
December	95798	95661	114.5	114.5	106273	106273	7.2	7.2	163.0	163.0
January 1985	95936	96009	114.6	114.5	106427	106391	7.4	7.4	163.4	162.7
February	96168	96155*	114.8	114.8*	106645	106573*	7.4	7.4*	163.9	163.2*
March	96478	96384	115.0	115.1	106848	106850	7.3	7.3	164.3	163.6
April	96711	96617	115.4	115.3	107122	107108	7.3	7.2	164.8	164.0
May	96922	96863	115.7	115.6	107583	107403	7.2	7.1	165.3	164.6
June	97100	97082	116.1	115.8	107966	107766	7.1	7.0	165.7	165.1
July	97328	97416	116.3	116.1	108158	108009	7.0	7.0	166.3	165.6
August	97564	97582	116.5	116.3	108346	108226	6.9	7.0	167.0	165.9
September	97827	97793	116.6	116.6	108528	108477	6.9	6.9	167.6	166.5
October	97949	97946	116.8	116.7	108743	108657	6.9	6.9	168.2	167.1
November	98067	98084	116.9	116.9	108936	108826	7.0	6.9	168.7	167.6
December	98185	98196	117.1	117.0	109124	109030	6.9	6.9	169.3	168.2
January 1986	98346	98317	117.2	117.1	109315	109158	6.9	7.0	169.9	168.9
February	98509	98468	117.3	117.3	109489	109367	6.9	7.0	170.8	169.4
March	98678	98617	117.2	117.4	109576	109562	7.0	7.0	171.8	170.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	3.082	3.082	1.831	1.831	178.9	175.3	2.636	2.636	2.458	2.461
November	3.102	3.102	1.845	1.847	169.2	167.3	2.651	2.650	2.482	2.483
December	3.118	3.114	1.863	1.864	150.5	154.9	2.661	2.657	2.511	2.502
January 1985	3.132	3.130	1.870	1.870	150.6	155.0	2.678	2.672	2.528	2.517
February	3.146	3.144*	1.881	1.881*	159.4	157.2*	2.696	2.689*	2.537	2.532*
March	3.161	3.160	1.892	1.891	166.0	160.9	2.711	2.707	2.545	2.546
April	3.175	3.174	1.903	1.899	156.8	154.4	2.719	2.718	2.562	2.564
May	3.189	3.193	1.913	1.911	152.4	154.7	2.730	2.731	2.578	2.576
June	3.204	3.210	1.924	1.922	146.3	152.7	2.741	2.744	2.595	2.591
July	3.224	3.227	1.935	1.932	147.5	149.8	2.757	2.758	2.609	2.608
August	3.245	3.241	1.945	1.940	152.2	145.2	2.774	2.768	2.622	2.623
September	3.265	3.260	1.956	1.952	156.6	151.0	2.791	2.786	2.635	2.635
October	3.280	3.280	1.965	1.961	150.7	150.5	2.800	2.802	2.649	2.652
November	3.296	3.296	1.974	1.970	146.5	151.7	2.812	2.815	2.666	2.663
December	3.311	3.312	1.983	1.979	147.4	148.9	2.831	2.828	2.684	2.679
January 1986	3.322	3.327	1.993	1.989	146.3	143.0	2.844	2.841	2.698	2.698
February	3.340	3.344	2.004	1.998	149.2	149.0	2.864	2.860	2.715	2.711
March	3.359	3.360	2.014	2.008	159.7	149.3	2.883	2.876	2.723	2.727

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	2374.2	2377.5	318.1	318.1	862.6	862.6	1193.5	1196.9	1065.1	1066.6
November	2396.9	2398.2	322.8	324.3	869.1	864.6	1204.9	1209.3	1074.7	1074.8
December	2424.9	2416.4	333.4	333.4	884.5	870.8	1207.1	1212.2	1088.8	1084.8
January 1985	2439.3	2429.9	332.5	331.8	886.3	870.6	1220.5	1227.5	1091.4	1088.1*
February	2450.1	2443.6*	333.2	335.8*	888.5	874.4*	1228.4	1233.4*	1092.3	1091.3
March	2457.1	2457.5	334.0	335.1	887.4	880.7	1235.7	1241.7	1091.6	1093.6
April	2473.1	2474.0	335.8	340.9	893.7	883.8	1243.6	1249.3	1096.7	1100.0
May	2487.8	2485.5	337.5	341.0	897.2	887.6	1253.1	1256.9	1101.8	1103.0
June	2501.9	2499.3	339.2	340.6	900.1	892.6	1262.6	1265.8	1106.1	1105.7
July	2515.5	2515.0	341.6	343.9	904.6	897.2	1269.3	1273.9	1108.6	1109.3
August	2529.4	2528.3	342.5	341.5	909.0	903.6	1277.9	1283.2	1110.4	1110.8
September	2538.8	2539.3	338.9	337.0	913.4	909.5	1286.5	1292.8	1110.6	1110.6
October	2552.9	2554.6	343.7	337.5	915.6	915.2	1293.6	1301.9	1113.3	1112.6
November	2571.5	2565.2	347.8	336.2	920.5	918.5	1303.2	1310.5	1117.1	1112.9
December	2584.7	2579.8	346.5	336.8	925.4	923.0	1312.8	1320.0	1118.4	1115.1
January 1986	2599.4	2597.5	347.2	339.7	930.6	928.4	1321.6	1329.4	1120.4	1118.9
February	2614.9	2609.4	348.5	338.0	936.6	932.9	1329.8	1338.5	1123.7	1120.1
March	2623.9	2623.9	346.2	337.4	939.7	938.6	1338.0	1347.9	1124.2	1122.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	108.73	108.73	15.89	15.89	9.7	9.7	70.32	70.32	22.52	22.52
November	110.90	110.40	16.29	16.17	9.8	9.8	71.61	71.24	23.01	22.99
December	110.82	109.87	16.47	16.20	11.0	11.0	71.88	71.00	22.47	22.68
January 1985	112.24	110.69	16.52	16.27	10.7	11.2	72.43	70.83	23.29	23.59
February	112.50	111.75*	16.78	16.38*	10.6	11.2*	72.61	71.54*	23.11	23.83*
March	112.51	112.18	16.73	16.46	10.6	11.0	72.52	72.06	23.26	23.66
April	113.24	113.13	16.75	16.57	10.8	11.3	73.04	72.31	23.45	24.25
May	113.73	113.45	16.79	16.65	10.9	11.2	73.32	72.62	23.62	24.18
June	114.17	113.81	16.93	16.71	10.8	11.1	73.56	73.03	23.68	24.07
July	114.83	114.58	16.96	16.84	10.8	11.2	73.93	73.41	23.94	24.33
August	115.30	114.82	17.14	16.93	10.7	11.0	74.29	73.93	23.87	23.96
September	115.23	114.76	16.84	16.98	10.7	10.7	74.65	74.41	23.74	23.37
October	115.98	115.29	17.49	17.06	10.6	10.6	74.83	74.88	23.66	23.35
November	116.87	115.40	17.91	17.09	10.5	10.4	75.23	75.15	23.73	23.16
December	117.12	115.84	17.91	17.18	10.4	10.4	75.63	75.52	23.58	23.14
January 1986	117.62	116.63	18.10	17.31	10.3	10.5	76.05	75.96	23.47	23.36
February	118.27	116.80	17.99	17.40	10.4	10.3	76.54	76.33	23.74	23.07
March	118.25	117.18	18.29	17.53	10.1	10.1	76.80	76.79	23.16	22.86

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	1.534	1.564	0.963	0.979	1.418	1.436	318.8	317.9	194.7	194.1
November	1.552	1.600	1.001	1.043	1.591	1.613	322.2	316.4	196.4	192.9
December	1.567	1.595	1.040	1.084	1.588	1.627	326.4	318.4	198.3	193.1
January 1985	1.552	1.833	1.026	1.041	1.508	1.664	323.9	324.9	196.3	169.0
February	1.615	1.822*	1.062	1.069*	1.493	1.673*	326.4	331.5*	197.6	199.0*
March	1.684	1.849	1.107	1.113	1.526	1.704	329.2	338.0	199.0	202.0
April	1.741	1.921	1.139	1.156	1.584	1.765	334.0	344.2	201.2	205.0
May	1.859	1.952	1.163	1.189	1.649	1.784	338.3	346.0	202.9	205.3
June	1.935	1.950	1.187	1.194	1.738	1.792	343.7	351.4	205.3	207.6
July	1.926	1.953	1.195	1.712	1.759	1.753	346.2	355.1	206.1	208.9
August	1.908	1.910	1.203	1.179	1.742	1.709	348.4	356.3	206.6	209.0
September	1.761	1.834	1.178	1.132	1.664	1.662	350.5	356.5	207.3	208.6
October	1.754	1.780	1.143	1.096	1.627	1.604	352.7	357.1	207.5	208.2
November	1.738	1.717	1.103	1.065	1.605	1.556	353.5	354.9	207.0	206.3
December	1.722	1.721	1.072	1.082	1.586	1.565	354.0	353.9	206.2	205.0
January 1986	1.738	1.649	1.095	1.053	1.593	1.546	354.3	354.7	205.5	205.0
February	1.692	1.593	1.098	1.011	1.546	1.482	353.8	353.5	204.4	203.2
March	1.640	1.635	1.056	1.063	1.493	1.491	354.0	353.1	203.6	201.9

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	126.8	126.0	56.9	56.7	135.1	135.2
November	130.7	127.6	56.9	56.2	134.6	132.6
December	132.3	130.8	58.0	56.2	136.0	131.5
January 1985	131.7	134.3	57.2	57.0	135.0	133.6
February	133.0	134.5*	57.8	57.5*	135.6	139.5*
March	134.6	136.1	58.5	58.9	136.1	143.0
April	136.2	137.8	58.5	59.6	139.3	146.8
May	137.9	139.1	58.1	59.9	142.3	147.0
June	139.6	140.6	58.9	60.2	145.2	150.6
July	140.3	141.2	59.0	60.5	146.9	153.4
August	141.2	141.8	59.2	60.8	148.0	153.7
September	142.0	142.2	59.4	61.3	149.1	153.0
October	143.5	143.1	59.9	61.6	149.3	152.4
November	144.7	143.0	60.5	61.8	148.3	150.1
December	145.6	143.5	61.2	62.3	147.2	148.1
January 1986	147.0	144.7	61.2	62.6	146.1	147.4
February	147.7	144.9	61.0	63.0	145.1	145.6
March	148.5	145.8	61.5	63.2	144.0	144.1

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	286.4	286.4	96.07	96.07	25.38	25.38	26.54	26.54
November	285.5	285.5	104.04	104.04	27.13	27.13	27.29	27.29
December	286.4	285.4	101.89	101.99	25.75	26.62	27.76	28.68
January 1985	287.2	284.9	103.19	103.86	26.62	23.11	27.56	25.70
February	288.0	285.5	105.66	104.43*	27.43	25.16	27.71	26.08
March	289.3	286.4	105.92	105.48	27.78	26.35	27.87	26.53
April	290.9	288.2	107.16	107.19	27.95	26.69	27.73	26.58
May	292.2	290.3	108.05	106.84	28.04	26.55	27.66	26.69
June	294.2	292.4	107.65	108.26	27.75	27.42	27.58	27.03
July	296.3	294.5	107.21	109.73	27.53	27.89	27.46	27.21
August	298.2	297.3	105.93	107.42	27.26	26.82	27.48	27.06
September	300.3	299.1	105.88	106.03	27.46	26.95	27.45	27.11
October	301.6	301.6	104.29	105.58	26.89	27.14	27.26	27.19
November	303.9	303.1	105.08	106.65	26.98	27.48	27.30	27.33
December	306.5	304.9	108.35	105.84	27.53	27.02	27.35	27.30
January 1986	308.3	306.3	108.52	107.28	27.38	27.53	27.36	27.39
February	310.1	308.1	108.95	106.43	27.26	27.29	27.33	27.46
March	312.2	310.0	108.16	105.89	27.05	27.08	27.35	27.51

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	563.8	563.8	6.35	6.35	164.5	164.4	81.5	81.4
November	564.2	565.0	6.28	6.28	165.2	165.0	81.6	81.5
December	566.4	566.5	6.43	6.62	166.2	165.9	81.9	81.7
January 1985	565.8	567.6	6.58	6.59	167.2	166.6	82.2	81.9
February	569.2	569.1	6.71	6.73*	168.1	167.1	82.4	82.0
March	573.2	572.7	6.85	6.86	169.0	167.8	82.7	82.2
April	575.9	576.3	6.93	6.98	169.6	168.5	82.8	82.3
May	579.3	579.9	6.99	6.95	170.3	169.3	83.0	82.6
June	582.0	583.0	6.96	7.03	171.0	170.0	83.2	82.7
July	585.4	587.1	7.11	7.10	171.3	170.6	83.2	82.9
August	588.8	592.4	7.24	7.21	171.5	170.9	83.1	82.8
September	592.9	596.0	7.37	7.34	171.3	171.3	82.9	82.9
October	595.7	600.1	7.45	7.46	171.0	171.5	82.6	82.8
November	599.3	603.3	7.53	7.55	170.7	171.7	82.3	82.7
December	603.6	606.2	7.48	7.63	170.4	172.0	81.9	82.7
January 1986	607.5	608.9	7.69	7.76	170.4	171.8	81.6	82.5
February	610.1	612.5	7.83	7.93	169.8	171.5	81.3	82.1
March	613.3	616.3	7.98	8.04	169.5	171.2	81.0	81.8

Fore. = February Forecast
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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	-8.37	-8.37	164.5	164.0	3721	3726	1649	1650	1.5	2.8
November	-8.94	-8.94	166.6	164.8	3753	3768	1661	1665	1.0	2.5
December	-6.24	-6.79*	167.1	163.9	3784	3798	1673	1678	3.2	4.0
January 1985	-7.96	-8.96	168.5	166.7	3812	3818	1680	1681	0.3	1.7
February	-8.83	-9.98	169.8	168.1	3832	3837	1682	1685	-1.6	2.4
March	-9.69	-10.25	169.9	168.6	3857	3866	1687	1692	-0.7	4.3
April	-9.18	-10.72	170.8	169.9	3883	3891	1695	1702	2.7	4.2
May	-8.73	-11.05	171.8	169.3	3903	3915	1702	1708	5.8	3.7
June	-9.47	-11.43	172.1	170.5	3924	3936	1708	1711	6.8	5.2
July	-9.56	-11.29	171.7	171.1	3947	3971	1712	1721	9.2	5.9
August	-9.78	-11.05	171.3	170.4	3969	4000	1714	1727	10.6	6.5
September	-9.89	-10.65	171.4	170.1	3992	4019	1716	1728	11.9	6.2
October	-9.93	-10.81	170.8	169.6	4009	4042	1718	1731	10.9	7.5
November	-9.74	-10.57	171.3	170.5	4030	4066	1727	1734	10.3	8.9
December	-9.30	-10.43	172.9	169.9	4052	4078	1725	1732	10.5	8.6
January 1986	-9.59	-10.26	173.2	170.7	4074	4090	1727	1731	11.6	8.5
February	-9.68	-10.52	173.0	170.4	4093	4115	1729	1735	12.2	9.7
March	-9.78	-10.41	172.6	170.2	4112	4134	1730	1735	12.8	10.3

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	314.6	314.6	290.9	290.9	323.2	323.2	225.60	225.75
November	315.3	315.3	292.4	292.4	323.8	323.8	225.95	226.25
December	315.8	315.9	292.7	292.6	323.0	323.0	226.16	226.30
January 1985	316.4	316.5	292.1	292.6	322.3	322.3	226.93	227.15
February	317.1	317.5*	292.7	293.4*	322.8	322.6*	227.81	227.73
March	317.8	318.4	293.2	294.3	323.2	323.5	228.66	228.46
April	318.8	319.0	293.5	294.1	324.0	324.1	229.11	228.66
May	319.9	319.6	294.1	294.4	324.0	323.6	229.38	229.16
June	320.8	320.6	294.7	294.8	324.9	324.3	229.74	229.99
July	321.7	321.6	295.3	295.3	326.1	325.1	230.58	230.69
August	322.9	322.9	295.7	295.8	327.8	326.0	231.59	231.57
September	323.8	324.3	296.4	296.4	328.0	325.7	232.61	232.58
October	325.1	325.6	296.9	297.1	329.6	327.9	233.42	233.57
November	326.5	326.8	297.5	297.8	329.9	328.6	234.17	234.53
December	327.9	328.1	298.3	298.5	329.9	329.2	234.92	235.46
January 1986	329.1	329.1	299.0	299.2	331.1	330.0	235.84	236.26
February	330.4	330.4	299.9	299.9	332.5	331.2	236.78	237.23
March	331.7	331.5	301.0	300.6	333.9	332.4	237.75	238.23

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	222.9	222.9	178.4	178.4	219.6	219.8	241.4	241.3	163.7	163.7
November	223.0	223.1	178.4	178.5	219.2	219.2	242.3	242.5	164.1	164.0
December	222.9	222.7	178.4	178.2	219.2	218.7	242.7	242.7	164.6	164.9
January 1985	223.5	223.3*	179.0	180.0*	219.0	218.3*	243.6	243.1*	165.0	165.8
February	224.3	223.9	179.3	180.2	219.4	219.0	244.8	243.9	165.2	166.6*
March	225.1	224.7	179.4	180.1	219.9	220.1	245.9	244.7	165.4	167.3
April	225.5	224.9	179.7	180.3	220.3	219.8	246.8	245.5	166.0	167.9
May	225.8	225.3	179.8	180.0	220.0	220.0	247.5	246.4	166.7	168.5
June	226.2	226.0	179.7	180.5	220.1	220.3	248.2	247.3	167.4	169.3
July	226.9	226.7	180.1	180.9	220.8	220.9	249.3	248.3	168.0	170.0
August	227.8	227.6	180.7	181.3	221.3	221.5	250.4	249.4	168.6	170.5
September	228.6	228.6	181.3	181.6	221.9	222.3	251.6	250.6	169.1	170.9
October	229.3	229.6	182.0	182.5	222.7	223.0	252.4	251.7	170.0	171.5
November	230.2	230.5	181.5	182.6	223.6	223.7	253.3	252.9	170.8	172.0
December	231.1	231.4	181.5	182.8	224.5	224.5	254.2	254.0	171.7	172.6
January 1986	232.0	232.1	182.1	183.1	225.1	225.2	255.4	255.1	172.4	173.3
February	232.7	233.0	182.8	183.4	225.8	225.8	256.6	256.1	173.1	174.0
March	233.4	233.8	183.5	183.7	226.5	226.4	257.8	257.3	173.9	174.9

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	214.4	214.7	545.5	548.4	2317.4	2318.7	9.99	9.99	9.87	9.87
November	216.1	216.1	549.3	553.9	2346.1	2345.8	9.43	9.43	8.81	8.81
December	217.3	217.4	553.9	558.7	2375.3	2371.6	8.38	8.38	8.28	8.28
January 1985	219.0	218.7	557.2	562.9	2393.8	2399.4	8.35	8.35	8.05	8.00
February	220.0	219.6*	562.8	568.3*	2412.6	2418.6*	8.56	8.43*	8.43	8.28*
March	221.1	221.8	568.3	574.0	2431.2	2437.9	9.07	8.76	8.82	8.81
April	222.8	222.9	571.7	576.2	2450.8	2457.4	9.23	9.27	[illegible]3	9.16
May	224.5	224.1	573.6	578.6	2467.4	2474.6	9.20	9.68	8.86	9.47
June	226.1	225.6	575.5	582.3	2484.0	2494.4	9.21	9.75	8.98	9.58
July	227.0	226.7	579.8	585.6	2499.3	2514.4	9.58	10.23	9.27	9.94
August	227.9	228.0	583.2	590.1	2519.4	2537.0	9.96	10.46	9.76	10.07
September	228.8	228.9	587.6	591.7	2539.6	2552.2	9.92	10.21	9.89	9.83
October	230.2	230.0	590.7	594.1	2555.2	2568.8	9.99	10.02	9.72	9.72
November	231.6	231.4	593.6	597.0	2573.5	2586.8	9.95	9.84	9.68	9.56
December	233.0	232.6	596.4	599.6	2592.1	2604.9	9.91	9.66	9.63	9.34
January 1986	234.0	234.0	599.1	602.1	2606.5	2623.1	9.78	9.56	9.49	9.25
February	235.1	235.2	601.4	605.2	2618.4	2644.1	9.63	9.33	9.23	9.20
March	235.9	236.1	602.8	607.0	2630.9	2660.0	9.47	9.32	9.16	9.07

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	12.63	12.63	10.25	10.25	10.12	10.12	10.38	10.38	12.58	12.58
November	12.29	12.29	10.17	10.17	9.03	9.03	9.18	9.18	11.77	11.77
December	12.13	12.13	9.95	9.95	8.44	8.44	8.60	8.60	11.06	11.06
January 1985	12.08	12.08	9.51	9.42	8.02	8.03	8.20	8.14	10.50	10.62
February	11.83	12.09*	9.21	9.43*	8.43	8.42*	8.65	8.62*	10.50	10.50*
March	11.91	12.64	9.29	9.92	9.16	8.83	9.32	9.05	10.50	10.73
April	12.06	12.76	9.47	9.99	9.25	9.36	9.46	9.51	10.93	11.00
May	12.17	12.86	9.58	10.10	9.16	9.73	9.29	9.16	11.12	11.46
June	12.29	12.89	9.69	10.13	9.20	9.70	9.43	9.95	11.25	11.50
July	12.35	13.03	9.76	10.27	9.53	10.09	9.77	10.28	11.38	11.93
August	12.32	13.08	9.73	10.41	9.85	10.35	10.08	10.54	11.75	12.26
September	12.40	12.72	9.81	10.05	9.93	10.26	10.21	10.50	11.75	12.50
October	12.46	12.61	9.97	9.94	9.96	10.05	10.25	10.33	11.75	12.50
November	12.52	12.50	10.04	9.78	9.98	9.73	10.28	9.98	11.75	12.24
December	12.49	12.36	9.99	9.63	9.98	9.54	10.25	9.80	11.75	12.00
January 1986	12.36	12.14	9.86	9.35	9.84	9.46	10.09	9.73	11.75	12.00
February	12.26	11.96	9.69	9.15	9.76	9.24	9.96	9.49	11.75	11.82
March	12.31	11.98	9.70	9.20	9.57	9.17	9.73	9.38	11.75	11.50

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MONTHLY PROJECTIONS
MARCH 1985

Dr. Donald Ratajczak, Director
For Release: March 26, 1985

WEATHER FREEZES ECONOMY IN FIRST QUARTER

The surprising decline in hours worked during February, followed by confirmation in declining industrial production unquestionably indicates that economic activity fell in February. According to our estimates for February, which require guesstimates on the merchandise trade balances and construction expenditures, real GNP fell at an annual rate of 2.8%. This sharp decline largely explains why the "flash" estimate of first quarter GNP showed only a 2.1% increase.

While the economy stalled in February, the issue is what caused the stall. Our estimates show a reasonable increase in imports, leading to a $1.4 billion increase in the merchandise trade deficit. In the absence of this increase, real GNP would have advanced slightly. If imports are undermining manufacturing activity in the United States, as some analysts maintain, then consumption will continue to outstrip income, as it did in February, and corporate investment will continue to outstrip corporate cash flow until diminished household and corporate savings lead to such a sharp increase in interest rates that economic activity no longer can advance. (It should be noted that economic sluggishness caused by import penetration will initially lead to an imbalance between expenditures and savings resulting in higher interest rates rather than the interest rate weakness that credit markets anticipate.)

Another explanation for the sluggishness in February, however, is catastrophe No. 58. In the middle of February a severe winter storm so impacted the midwest that industrial claims for weather-related damages were unusually high. That winter storm occurred during the week when the employment survey was being conducted. This explains why hours worked in the automobile industry fell by 2.3 hours despite no evidence that excess inventories were building. Industrial production also was impacted by this winter weather. If the weather